

VZCZCXRO8582
PP RUEHDBU RUEHIK RUEHPOD RUEHPW RUEHYG
DE RUEHBUL #1526/01 1660818
ZNR UUUUU ZZH
P 150818Z JUN 09
FM AMEMBASSY KABUL
TO RUEHC/SECSTATE WASHDC PRIORITY 9441
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC 0820
RUCNAFG/AFGHANISTAN COLLECTIVE
RUEHZG/NATO EU COLLECTIVE
RUEABND/DEA HQS WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 02 KABUL 001526

DEPT FOR SRAP, SCA/FO, SCA/RA, AND SCA/A
DEPT PASS FOR AID/ANE
DEPT PASS USTR FOR DELANEY AND DEANGELIS
DEPT PASS OPIC
DEPT PASS FOR TDA FOR STEIN AND GREENIP
USOECF FOR ENERGY ATTACHE
CENTCOM FOR CSTC-A
NSC FOR JWOOD
TREASURY FOR MHIRSON, ABAUKOL, AWELLER, AND MNUGENT
COMMERCE FOR HAMROCK-MANN, DEES, AND FONOVIKH

SENSITIVE

SIPDIS

E.O. 12958 N/A
TAGS: [EFIN](#) [ECON](#) [EAID](#) [AF](#)
SUBJECT: Ambassador's Meeting with Afghan Finance Minister
Zakhilwal

SUMMARY

¶1. (SBU) Ambassador Eikenberry and Finance Minister Zakhilwal June 8 discussed joint visits to Afghan provinces, including a June 17 trip to open a US-financed border crossing post in Islam Qala, Herat. Zakhilwal welcomed the preliminary, positive assessment by a USAID team that examined the Finance Ministry's financial management system and said the GIROA would welcome direct budget support. The Ambassador said the USG was considering channeling more of its assistance through the Afghanistan Reconstruction Trust Fund. He urged formation of joint USG-GIROA teams to monitor increased development funding flows through RC-East and RC-South. Zakhilwal touted recent progress on revenue generation and complained about alleged fraud involving duty-exempt import goods ostensibly bound for Coalition forces. Zakhilwal said the GIROA was prioritizing the aid requests in the Civilian Surge Technical Assistance plan it presented in April. An updated plan would be presented to the next meeting of the Joint Coordination and Monitoring Board in early July. End Summary

¶2. (SBU) The Ambassador, accompanied by Mission staff, met June 8 with Afghan Finance Minister Omar Zakhilwal. The minister welcomed the Ambassador's plans, already in train, to travel often to Afghan provinces and expressed interest in joining occasional trips. The two agreed to travel together to Herat for the opening of the USG-financed border crossing post at Islam Qala on June 17. The Ambassador said the USG would not object if the GIROA invites the Iranian Consul General in Herat to the ceremony. They also discussed a possible trip to Badakhshan in the next month.

BUDGET PLANNING; POSSIBLE ARTF SUPPORT

¶3. (SBU) Zakhilwal noted that a recent USAID mission had reviewed MOF's financial management system. He hoped the team had a positive impression and undertook to work on any problems detected. USAID Mission Director Frej said the team reached a favorable conclusion and that the USG was considering possible increased budget support in the future. Zakhilwal welcomed this news. MOF would start work in October 2009 on the 2010-11 budget (beginning in March 2010). The Ambassador said the USG would be working in October on the Administration's FY-2011 budget request. The US is considering increasing the assistance it channels through the Afghanistan Reconstruction Trust Fund (ARTF), and the two governments should

strive to align their plans.

¶4. (SBU) Zakhilwal welcomed this suggestion and said such US efforts would also encourage other donors to increase their alignment with Afghan priorities. He also hoped donor projects funded outside the Afghan budget could at least be reflected in the budget, so that Parliament gets a fuller picture of total development spending. The GIROA, he said, also seeks joint implementation, management and oversight of donor-funded projects.

PRIORITIZING TECHNICAL ASSISTANCE NEEDS

¶5. (SBU) Zakhilwal said MOF is working on an improved version of the Civilian Surge Technical Assistance Plan delivered to the USG in mid-April (reftel). The new paper would prioritize TA needs, highlighting the top 50 advisor positions required, and elaborate on mechanisms for delivering TA. The GIROA would use the Joint Coordination and Monitoring Board (JCMB) to seek donor support for the revised plan, presenting it to a Standing Committee meeting on June 20 and a JCMB plenary in early July. The Ambassador delivered his letter to Zakhilwal dated June 8 expressing USG support for the GIROA's original civilian technical assistance proposal and its intention to update and refine it. He said the US and other donors should try to meet Afghanistan's needs, and UNAMA should take the lead in improving donor coordination.

¶6. (SBU) The FinMin said he would also seek donor support at the JCMB for a Revenue Action Plan and an Anti-corruption Action Plan, both now being developed. On revenues, Zakhilwal touted the "very impressive results" of his efforts so far: average monthly customs revenues of Afs 1.7 billion (\$34 million) last year have increased to Afs 2.8 billion (\$56 million) so far this year and can be raised

KABUL 00001526 002 OF 002

above Afs 3.0 billion (\$60 million). He said other types of revenue have also increased but by less, reflecting the bigger challenges of generating greater income tax. The Anti-corruption Action Plan would also be focused on revenue generation. Both plans would highlight areas where the GIROA needs donor assistance.

MINISTER'S CONCERN WITH FUEL IMPORT FRAUD

¶7. (SBU) Zakhilwal raised concerns about duty-exempt goods, especially fuel, imported for Coalition forces, alleging that much ended up on the black market, skewing market competition and reducing GIROA revenues. The minister sought the Ambassador's help in facilitating meetings with US military commanders and proposed establishing a Customs Office outside Bagram AFB to assess goods leaving the base for possible tax liability. Zakhilwal estimated that 30-40 percent of the goods entering Afghanistan duty-exempt do so fraudulently and end up on the black market.

¶8. (SBU) Without endorsing Zakhilwal's estimate, the Ambassador acknowledged the problem and said the USG would look into it and collaborate with MOF on a solution. (Comment: In fact, US military buyers closely cooperate with Afghan Customs officials to minimize fraud. Systems are in place to document that legitimate, duty-exempt imports actually reach their intended destinations. Leakage is estimated at only 2-3 percent, some of this occurring outside Afghanistan. Forgery of duty-exemption documents by unscrupulous importers, often associated with bribery of Customs officers, is a separate issue requiring stronger Afghan law enforcement. Goods imported in this way are obviously never intended to reach US military buyers. Nevertheless, further cooperation and collaboration between NATO-ISAF/Coalition and MOF will be promoted. End comment)

COORDINATING AID FROM REGIONAL COMMANDS

¶9. (SBU) The Ambassador noted that the ongoing expansion in US military forces in the East and South would be accompanied by increases in development spending through these regional commands. He said the two governments should discuss the implications of these financial flows and the resource allocation decisions being made at command level. The Ambassador suggested establishing integrated teams at each RC, including relevant US civilian and military staffs

and Afghan officials from the ministries of Finance, Agriculture, Rural Rehabilitation and Development, and the Independent Directorate for Local Governance. He noted that MOF should be involved wherever there are such large resource flows, as this would give us confidence that increased funding through the ARTF is being properly managed. Zakhilwal welcomed the suggestion and said the two sides could discuss a mechanism for such integrated teams. The Ambassador urged early follow-up and noted the planned establishment of Civilian Coordinators at the RCs.

¶10. (SBU) In closing, Zakhilwal said a feasibility study for the Gambiri dam project near Jalalabad had been completed and he hoped USAID would consider funding it. The project would produce 25 MW of electricity, irrigate 10,000 ha, and have little impact on water supplies in Pakistan.

EIKENBERRY